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ZILLOW ESTIMATES OF HOME VALUES

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You asked how the on-line firm Zillow estimates home values and whether it consults with states in developing these estimates.

Among other products, Zillow produces estimates of the value of residential properties, including single-family homes, condominiums, and multi-family buildings. Zillow produces these estimates primarily by using publicly-available databases, such as the property's price history and property tax assessments. These databases contain a variety of information useful in estimating value, including a building's size and age, the number of bedrooms and bathrooms, information about heating and cooling systems, and the size of the lot. On the other hand, the databases Zillow uses do not include some relevant data, such as whether improvements have been made since the last sale of the property or whether the property has a water view. Zillow also allows property owners to update estimates by providing information on their homes, for example, recent additions. According to Zillow staff, the firm does not consult with states in developing its estimates, although it does use assessment databases prepared by counties and municipalities.

Zillow has developed an algorithm that weighs each piece of data it uses based on current market trends in the relevant market area. The algorithm excludes foreclosure sales and seeks to estimate full-value, arm's-length transactions. The estimates are recalculated at least three times a week. The algorithm was substantially revised in 2006, 2008, and 2011.

Zillow's website (www.zillow.com) notes that the estimate is not an appraisal and is not based on a physical inspection. It states that the estimate "is a starting point and does not consider all the market intricacies that can determine the actual price a house will sell for." It also notes that a buyer cannot use the estimates to get a loan.

According to Zillow's analysis, the accuracy of its estimates vary between and within states. Zillow estimates that the median error for Connecticut as of June 2012 was 7.7%, compared to a national median of 8.8%. This means that for 50% of the recent sales of Connecticut properties, the difference between the estimate and the actual sales price was less than 7.7% and that for 50% of the properties the difference was more than 7.7%. In Connecticut, the median error rate ranged from 6.7% in Middlesex County to 10.1% in Litchfield County. Generally, the estimates are most reliable in areas with frequent property transactions.

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